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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 000908

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TAGS: ECON ETRD EINV BR SF
SUBJECT: SOUTH AFRICA-BRAZIL TRADE: THE WEAKEST LINK IN
IBSA?

REF: A. 08 PRETORIA 589
¶B. 07 PRETORIA 3772
¶C. 08 PRETORIA 774
¶D. 07 PRETORIA 554
¶E. 07 PRETORIA 569

Classified By: Economic Counselor Perry Ball for reasons 1.4(b) and (d)

¶1. (U) Summary. Brazil and South Africa's economic relations, although growing, are still comparatively small. South Africa and Brazil have already formed the trilateral India-Brazil-South Africa (IBSA) Forum, established closer trade ties through the Southern African Customs Union (SACU)-Mercosur preferential tQe agreement, and conducted negotiations for years on a more comprehensive free trade agreement. However, statistics reveal that South Africa and Brazil's trade relations remain rather static and follow an unchanging pattern. Trade with Brazil constituted 1.3 percent of South Africa's total exports and 1.8 percent of total imports. The recent trade growth can be partially attributed to increasing prices in commodities, which constitute a large portion of South Africa's exports, rather than increased volume or diversity of products. Foreign investment is impeded by cultural differences with only 12 South Africa companies residing in Brazil and one major Brazilian company in South Africa. While Brazil is considered one of the key countries for South-South Cooperation, until South Africa concludes free trade agreement negotiations with Mercosur and develops stronger and more diversified trade ties under IBSA, its economic relations with Brazil will continue to trail its other southern partners, such as India and China. End Summary.

TRADE PATTERN REMAINS STATIC

¶2. (C) To date, Brazil and South Africa's economic relations, although growing, are still comparatively small. The rhetoric from the heads of state during the India-Brazil-South Africa (IBSA) Forum's Joint Declaration made in October 2007 could lead to the belief that the three countries were experiencing record-breaking trade relations and were ready to embark towards the next step of their envisaged trade relations: trilateral trade negotiations. South Africa and Brazil have already formed the trilateral IBSA, established trade ties through the SACU-Mercosur preferential trade agreement, and conducted negotiations for years on a more comprehensive free trade agreement. However, trade statistics reveal that while India-South Africa trade is expanding at exponential rates (Ref A), South Africa and Brazil's trade relations remain rather static and follow an unchanging pattern.

¶3. (U) According to Department of Trade and Industry (DTI) data, Brazil was ranked 21st for exports and 13th for imports in 2007. Trade with Brazil constituted 1.3 percent of South Africa's total exports and 1.8 percent of total imports.

Trade between the two countries over the last four years was as follows (in millions USD):

South Africa/Brazil Trade

	2004	2005	2006	2007
SA Exports	242	320	406	526
SA Imports	994	1312	1386	1662
Total Trade	1236	1632	1792	2188
Trade balance	-752	-992	-980	-1135

¶4. (U) Trade growth in recent years can be partially attributable to increasing prices in commodities, which constitute a large portion of South Africa's exports. Trade data shows that in 2007 South Africa's exports grew 25.9 percent and imports 19.9 percent. Exports to Brazil are dominated by base metals (44 percent), mineral products (30 percent), chemicals (12 percent) and machinery (12 percent). Qpercent), chemicals (12 percent) and machinery (12 percent). As with exports, imports from Brazil have remained the same over the last four years with the majority consisting of original equipment components (26 percent), machinery and mechanical appliances (16 percent), animal products (14 percent), and automobiles and automobile parts (11 percent).

¶5. (C) DTI Americas Manager Cobs Pillay told Trade and Investment Officer that the South African government was first focusing on the Indian market before it expanded into Brazil, despite SACU's preferential trade agreement with the Mercosur countries. DTI Deputy Director Iqbal Sharma said that South Africa was dedicated to finalizing a free trade agreement with India before it embarked on trilateral negotiations or further enhanced its trade relations with Brazil. Sharma noted that South Africa, poised equidistantly between Brazil and India, was hoping to cash in on this

geographical position as India-Brazil trade grew stronger. Southern African Institute of International Affairs (SAIIA) researcher Phil Alves previously informed Trade and Investment Officer that the preferential trade agreement was limited to tariff reductions on inconsequential product lines that did not impact either countries' current trade. Because of this, the agreement had failed to develop greater and more varied trade relations. According to Alves, a more robust free trade agreement was required to enhance the bilateral trade relations. SACU and Mercosur held their the 12th negotiating session on the free trade agreement in April ¶2008. SACU is experiencing the same difficulties in finalizing this agreement as it did with the U.S. Free Trade Agreement and, more recently, the European Union Economic Partnership Agreement. The Mercosur agreement still has not been concluded.

¶6. (C) According to SAIIA's report "South-South Economic Co-operation: The India-Brazil-South Africa Case," which was based on a survey of South African businesses trading or investing in Brazil, additional constraints to trade that still need to be remedied include tariff peaks and tariff escalation on finished goods, restrictions on importation of a variety of machinery and clothing, red tape, anti-dumping regulations, and high import costs. DTI's internal report on Brazilian trade relations also cites high import costs, along with numerous non-tariff measures, such as registration requirements for foreign products. The import costs include a 25 percent tax on the cost of freight if transported by sea, and an average import duty of 17 percent, as well as expensive clearing, port and handling costs. Pillay noted that cultural and linguistic difference have stymied both trade and investment. Lastly, DTI's report cites diversification of export sectors as "crucial to overcome the inert growth of beneficiated products."

INVESTMENT HAMPERED BY CULTURAL DIFFERENCES

¶7. (C) Based on figures supplied to DTI by the Brazilian Central Bank, South Africa currently has 3.69 million USD in foreign investment stock in Brazil. There are 12 known South African companies with operations in Brazil mainly in mining, finances, IT, steel, chemicals, and beverages. SA companies operating in Brazil include Banco Standard de Investimentos SA, AngloGold, Alexander Forbes Financial Services, Dex Brasil, Barham Financial Services, Macsteel International, NOSA, and Volcano Agroscience. According to Pillay, DTI is only aware of one major Brazilian company operating in South Africa: the Marco Polo Bus Company. A major Brazilian mining group, Vale, according to press reports, is preparing an offer of up to 90 billion USD for the world's sixth largest mining operation, Xstrata of South Africa.

¶8. (C) Pillay commented that cultural differences are the greatest impediment to investment. SAIIA reported that "forty percent of the spokespersons of SA companies active in Brazil noted they had been overwhelmed by the "completely alien and different" Brazilian business culture, compounded by the wide linguistic divide." Despite these differences, both countries are looking for avenues to enhance investment. For example, Pillay, following a trade mission to Brazil in 2007, was courting Brazilian sugar cane growers to expand their operations to the KwaZuluNatal area of South Africa.

COMMENT

¶9. (U) This is one cable among a series on South Africa's
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relations with the BRIC countries and IBSA. As reported reftels, South Africa has shifted its policies to actively pursue stronger economic relations with its southern partners as part of its promotion of South-South Cooperation. While Brazil is considered one of the key countries for South-South Cooperation, until South Africa concludes the free trade agreement with Mercosur and develops stronger and more diversified trade ties under IBSA, its economic relations with Brazil will continue to trail other southern partners, such as India and China.
BALL